

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2004

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 0-30218

TIME WARNER TELECOM INC.

(Exact name of Registrant as specified in its charter)

State of Delaware
(State or other jurisdiction of
incorporation or organization)

10475 Park Meadows Drive
Littleton, Colorado
(Address of principal executive offices)

84-1500624
(I.R.S. Employer
Identification Number)

80124
(Zip Code)

Registrant's telephone number, including area code: (303) 566-1000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

The number of shares outstanding of Time Warner Telecom Inc.'s common stock as of June 30, 2004 was:

Time Warner Telecom Inc. Class A common stock -- 49,734,718 shares
Time Warner Telecom Inc. Class B common stock -- 65,936,658 shares

TIME WARNER TELECOM INC.

Results of Operations

The following table sets forth certain data from our unaudited consolidated and condensed financial statements presented in thousands of dollars and expressed as a percentage of total revenue. You should read this table together with our consolidated and condensed financial statements, including the notes thereto, appearing elsewhere in this report:

Statements of Operations Data:		Three Months Ended June 30,		Six Months Ended June 30,	
		2004	2003	2004	2003
		(amounts in thousands, except per share amounts)			
Revenue (1):					
Dedicated transport	\$ 83,552	51 %	88,842	55 %	167,712
Switched services	39,321	24	36,433	22	77,434
Data and Internet services	29,908	18	24,131	15	58,332
Intercarrier compensation	10,045	7	13,366	8	20,997
Total revenue	162,826	100	162,772	100	324,475
Costs and expenses (2):					
Operating (exclusive of depreciation, amortization, and accretion shown separately below)	64,221	39	65,463	40	128,538
Selling, general, and administrative	43,381	27	47,152	29	88,693
Depreciation, amortization, and accretion	54,590	34	54,358	33	111,403
Total costs and expenses	162,192	100	166,973	102	328,634
Operating income (loss)	634	-	(4,201)	(2)	(4,159)
Interest expense	(28,811)	(18)	(26,272)	(16)	(64,633)
Interest income	1,224	1	1,697	1	2,543
Investment gain	20	-	-	-	710
Loss before income taxes and cumulative effect of change in accounting principle	(26,933)	(17)	(28,776)	(17)	(65,539)
Income tax expense	225	-	225	-	450
Net loss before cumulative effect of change in accounting principle	(27,158)	(17)	(29,001)	(17)	(65,989)
Cumulative effect of change in accounting principle	-	-	-	-	-
Net loss	\$ (27,158)	(17) %	\$ (29,001)	(17) %	\$ (65,989)
Basic and diluted loss per share	\$ (0.23)		\$ (0.25)		\$ (0.57)
Weighted average shares outstanding, basic and diluted	115,673		114,930		115,594
EBITDA (3)(4)	\$ 55,224	34 % (5)	\$ 50,157	31 % (5)	\$ 107,244
Net cash provided by operating activities	45,865		52,102		37,907
Net cash used in investing activities	(167,275)		(95,176)		(212,842)
Net cash provided by (used in) financing activities	(508)		(6,808)		30,239

- (1) Includes revenue resulting from transactions with affiliates of \$5.1 million and \$7.7 million for the three months ended June 30, 2004 and 2003, respectively, and \$10.7 million and \$15.4 million for the six months ended June 30, 2004 and 2003, respectively.
- (2) Includes expenses resulting from transactions with affiliates of \$1.8 million and \$1.5 million for the three months ended June 30, 2004 and 2003, respectively, and \$3.4 million and \$2.7 million for the six months ended June 30, 2004 and 2003, respectively.

- (3) "EBITDA" is defined as net income or loss before depreciation, amortization, accretion, asset impairment charge, interest expense, interest income, investment gains and losses, income tax expense, and cumulative effect of change in accounting principle. EBITDA is not intended to replace operating income (loss), net income (loss), cash flow and other measures of financial performance reported in accordance with generally accepted accounting principles in the United States. Rather, EBITDA is a measure of operating performance and liquidity that investors may consider in addition to such measures. Our management believes that EBITDA is a standard measure of operating performance and liquidity that is commonly reported and widely used by analysts, investors, and other interested parties in the telecommunications industry because it eliminates many differences in financial capitalization, and tax structures, as well as non-cash and non-operating charges to earnings. EBITDA is used internally by our management to assess on-going operations and is a measure used to test compliance with certain covenants of our four series of senior notes, and the definition of EBITDA used in this table because the Revolver definition also eliminates certain non-cash losses within certain limits and certain extraordinary gains. EBITDA as used in this document may not be comparable to similarly titled measures reported by other companies due to differences in accounting policies.
- (4) The reconciliation between net loss and EBITDA is as follows:

TIME WARNER TELECOM INC.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(amounts in thousands)			
Net loss.....	\$ (27,158)	(29,001)	\$ (65,989)	(62,350)
Cumulative effect of change in accounting principle.....	-	-	-	2,965
Income tax expense.....	225	225	450	450
Investment gain.....	(20)	-	(710)	-
Interest income.....	(1,224)	(1,697)	(2,543)	(3,322)
Interest expense.....	28,811	26,272	64,633	52,612
Depreciation, amortization, and accretion.....	54,590	54,358	111,403	108,468
EBITDA.....	<u>\$ 55,224</u>	<u>50,157</u>	<u>\$ 107,244</u>	<u>98,823</u>

(5) EBITDA margin represents EBITDA as a percentage of revenue.



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Time Warner Telecom Announces Second Quarter 2004 Results

LITTLETON, Colo. – August 4, 2004 – Time Warner Telecom Inc. (NASDAQ: TWTC), a leading provider of managed voice and data networking solutions for business customers, today announced its second quarter 2004 financial results, including \$162.8 million in revenue, \$55.2 million in EBITDA¹, and a net loss of \$(27.2) million.

“We are making steady progress growing our revenue from enterprise customers,” said Larissa Herda, Time Warner Telecom’s Chairman, CEO and President. “While volatility continues in the telecom sector, we continue to pursue enterprise customers with a robust product suite which distinguishes us from others, as well as focusing on ongoing sales to quality carriers. Our revenue this quarter grew over the first quarter, as enterprise sales outpaced the headwinds we have been experiencing from disconnects, pricing pressures and other market dynamics. We are pleased with these results, and we continue to focus on delivering innovative ways to serve our customers.”

Highlights for the Quarter

For the quarter ending June 30, 2004 the Company --

- Grew enterprise revenue \$2.7 million sequentially, partially offset by a \$1.5 million decrease in other revenue, including a \$.9 million decrease in intercarrier compensation
- Grew enterprise revenue \$9.3 million, or 13% year over year, offset by the following decreases - \$3.3 million in carrier revenue, \$2.6 million in related party revenue and \$3.4 million in intercarrier compensation
- Produced EBITDA of \$55.2 million and EBITDA margin of 34%
- Increased the number of buildings served directly by the Company’s fiber network by 24%, year over year
- Grew customers by 20%, year over year, and
- Launched a series of new products, including expansion of the Company’s Ethernet and VersiPak product suites as well as launching a new Managed Security Service

Second Quarter 2004 compared to First Quarter 2004

Revenue

Revenue for the quarter was \$162.8 million, as compared to \$161.6 million for the first quarter of 2004, an increase of \$1.2 million sequentially. The primary components of the change included:

- \$2.7 million net increase in revenue from enterprise customers, primarily from the sale of data and Internet services
- \$2.2 million net increase from carriers and ISPs, primarily due to favorable dispute and contract settlements
- \$2.3 million decrease for a bankruptcy settlement received in the first quarter which did not recur in the second quarter
- \$.5 million net decrease from related parties
- \$.9 million decrease in intercarrier compensation due to lower minutes of use and lower rates

By product line, the percentage change in revenue for the second quarter over the first quarter was as follows:

- 5% increase for data and Internet services due to success with Ethernet and IP-based product sales
- 3% increase for switched services, primarily due to growth in bundled voice products
- 1% decrease for dedicated transport services, primarily due to carrier disconnects as well as pricing pressures

EBITDA and Margins

EBITDA for the quarter was \$55.2 million, reflecting an increase of 6%, or \$3.2 million, from the first quarter. Contributing to the increase was a \$1.9 million improvement in selling, general and administrative expenses primarily due to a bad debt recovery in the current period. EBITDA margin was 34% compared to 32%, and gross margin was 61% compared to 60% for the second and first quarters of 2004, respectively. The Company utilizes a fully burdened gross margin, including network costs, national IP backbone costs and personnel costs for customer care, provisioning, network maintenance, technical field and network operations.

Net Loss

The Company reported a net loss of \$(27.2) million, or \$(.23) per share for the quarter, compared to a net loss of \$(38.8) million or \$(.34) per share for the first quarter. The decrease in the loss primarily relates to \$8.9 million of deferred loan costs and related fees which were expensed in the first quarter in conjunction with a refinancing.

Second Quarter 2004 compared to Second Quarter 2003

Revenue

Quarterly revenue was \$162.8 million for both quarters. The primary change in revenue included:

- \$9.3 million net increase in revenue from enterprise customers, primarily from the sale of data and Internet services
- \$3.3 million net decrease from carriers and ISPs, primarily due to disconnects and pricing pressures
- \$2.6 million net decrease from related parties, primarily due to a decrease in transport services being purchased by their Internet-related businesses
- \$3.4 million decrease in intercarrier compensation due to lower minutes of use and lower rates

By product line, the percentage change in revenue year over year was as follows:

- 24% increase for data and Internet services due to success with Ethernet and IP-based product sales
- 8% increase for switched services, primarily due to growth in bundled voice products
- 6% decrease for dedicated transport services, primarily due to disconnects and pricing pressures

EBITDA and Margins

EBITDA for the quarter was \$55.2 million, reflecting a 10% increase, or \$5.0 million, from the same period last year. Contributing to the increase was a \$3.8 million improvement in selling, general and administrative expenses primarily due to a bad debt recovery in the current period. EBITDA margin was 34% for the quarter as compared to 31% for the same period last year. Gross margin was 61% for the current quarter as compared to 60% for the same period last year.

Net Loss

The Company reported a net loss of \$(27.2) million, or \$(.23) per share, for the quarter, compared to a net loss of \$(29.0) million or \$(.25) per share for the same period last year.

Other Operating Highlights

Capital Expenditures

Capital expenditures were \$44.0 million for the quarter, compared to \$31.5 million for the first quarter, and \$27.9 million in the second quarter last year. The Company continues to expect capital expenditures for 2004 to be \$150 million to \$175 million, which includes costs for continued expansion of its network, the addition of more buildings to the network, and infrastructure for new products.

Other Revenue Items

The Company expects additional disconnects from related parties over the next several quarters resulting in a reduction of quarterly revenue by approximately \$1 million. In conjunction with the mandated rate reduction by the FCC for switched access, the Company adjusted its rates on June 21 to be at parity with the competing Incumbent Local Exchange Carriers. The rate reduction had minimal impact on the current quarter but is expected to decrease intercarrier compensation by approximately \$2.0 million in the third quarter, subject to fluctuations in minutes of use.

The Company continues to experience a high level of service disconnections, which resulted in the loss of \$2.9 million of monthly revenue for the current quarter, \$2.4 million in the first quarter of 2004 and \$3.1 million for the second quarter last year.

New Product Announcements

The Company recently rolled out several new services to enhance existing product suites as well as launched a new managed security service.

The Company introduced its Multi-Point Extended Native LAN service. This product enhances the existing robust suite of Ethernet products by allowing any combination of customer locations throughout the Company's service area to communicate with each other, effectively creating a national Ethernet WAN. This product is scalable with capacity from 2 megabits up to 1 gigabit. As an indication of the scale of the deployment, Juniper Networks, Inc., recently announced that Time Warner Telecom's Virtual Private LAN service deployment was the largest in the United States.

The Company introduced VersiPak VRS, an enhancement to their existing converged product. VersiPak VRS allows customers to transfer private data between multiple branch locations with capacity needs up to 4.5 megabits. This new VersiPak product also allows customers to connect their smaller satellite or remote offices to their higher bandwidth Metro Ethernet solutions.

The Company also introduced a managed security service, which includes the introduction of network and CPE-based firewall and secure IP Virtual Private Network services. This service essentially stops unwanted in-coming traffic before it reaches the customer's location.

Summary

"We continue to focus on growing our enterprise customer base as well as stabilizing our carrier revenue," said Herda. "Our strategy to focus on enterprise customers has helped diversify our revenue stream and create growth opportunities. We are encouraged by the growth prospects of our data and Internet services. We remain focused on rational, long-term growth and profitability," concluded Herda.

Time Warner Telecom Inc. plans to conduct a webcast conference call to discuss its earnings results on August 5 at 9:30 a.m. MT (11:30 a.m. ET). To access the webcast and the financial and statistical information to be discussed in the webcast, visit www.twtelecom.com under "Investor Relations."

¹ EBITDA is defined as net income or loss before depreciation, amortization, accretion, asset impairment charge, interest expense, interest income, investment gains and losses, income tax expense and cumulative effect of change in accounting principle. (See a discussion below of EBITDA under "Financial Measures".)

Financial Measures

The Company provides financial measures using generally accepted accounting principles ("GAAP") as well as adjustments to GAAP measures to describe its business trends. These measures include EBITDA, which is a widely recognized metric of operating performance and liquidity. EBITDA is not intended to replace operating income (loss), net income (loss), cash flow, and other measures of financial performance and liquidity reported in accordance with GAAP. Management believes that EBITDA is a standard measure of operating performance and liquidity that is commonly reported and widely used by analysts, investors, and other interested parties in the telecommunications industry because it eliminates many differences in financial, capitalization, and tax structures, as well as non-cash and non-operating charges to earnings. Management uses EBITDA internally to assess on-going operations and it is the basis for various financial covenants contained in the Company's debt agreements. EBITDA is reconciled to Net Loss, the most comparable GAAP measure to EBITDA, within the Consolidated Operating Highlights on pages 6 and 7.

The Company uses recurring revenue to enhance the comparability of its revenue performance between periods (see page 11 for reconciliation to GAAP Revenue). The Company presented EBITDA, gross margins, EBITDA margins and recurring revenue without the impact of reciprocal compensation settlements to enhance comparability of those measures between periods. Due to the significant positive impact of the Company's settlement with WorldCom, Inc. (now MCI Inc.), the Company has presented its selected operating statistics on page 11, both as reported and net of the settlements as well as a reconciliation between the two, in order to assist in understanding the impact of the settlement and the Company's performance during the quarter net of the impact of that event.

Forward Looking Statements

The statements in this press release concerning the outlook for 2004 and beyond, including expansion plans, growth prospects, service disconnects, pricing pressures and expected capital expenditures are forward-looking statements that reflect management's views with respect to future events and financial performance. These statements are based on management's current expectations and are subject to risks and uncertainties. These risks include the risks summarized in the Company's filings with the SEC, especially the section entitled "Risk Factors" in its 2003 Annual Report on Form 10-K. Time Warner Telecom undertakes no obligations to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

About Time Warner Telecom Inc.

Time Warner Telecom Inc., headquartered in Littleton, Colo., is a leading provider of managed network solutions to a wide array of businesses and organizations in 44 U.S. metropolitan areas that require telecommunications intensive services. One of the country's premier competitive telecom carriers, Time Warner Telecom integrates data, dedicated Internet access, and local and long distance voice services for long distance carriers, wireless communications companies, incumbent local exchange carriers, and such enterprise organizations as healthcare, finance, higher education, manufacturing, hospitality, state and local government, and military. Please visit www.twtelecom.com for more information.

Time Warner Telecom Inc.
Consolidated Operations Highlights
(Dollars in thousands)
Unaudited (1) (2)

	Three Months Ended		
	6/30/04	3/31/04	Growth %
Revenue			
Dedicated transport services	\$83,552	\$84,160	-1%
Switched services	39,321	38,113	3%
Data and Internet services	29,908	28,424	5%
	152,781	150,697	1%
Intercarrier compensation (3)	10,045	10,952	-8%
Total Revenue	162,826	161,649	1%
Expenses			
Operating costs	64,221	64,317	0%
Gross Margin	98,605	97,332	1%
Selling, general and administrative	43,381	45,312	-4%
EBITDA	55,224	52,020	6%
Depreciation, amortization and accretion	54,590	56,813	
Operating Income (Loss)	634	(4,793)	
Interest expense	(28,811)	(35,822)	
Interest income	1,224	1,319	
Investment gains and (losses), net	20	690	
Net loss before income taxes	(26,933)	(38,606)	
Income tax expense	225	225	
Net Loss	(\$27,158)	(\$38,831)	
Capital Expenditures			
	\$44,023	\$31,548	40%
Gross Margin			
	61%	60%	
EBITDA Margin			
	34%	32%	

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.

(2) See Page 10 for selected operating statistics.

(3) Intercarrier Compensation includes switched access and reciprocal compensation.

Time Warner Telecom Inc.
Consolidated Operations Highlights
(Dollars in thousands)
Unaudited (1) (2)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2004	2003	Growth %	2004	2003	Growth%
Revenue						
Dedicated transport services	\$83,552	\$88,842	-6%	\$167,712	\$175,354	-4%
Switched services	39,321	36,433	8%	77,434	76,324	1%
Data and Internet services	29,908	24,131	24%	58,332	48,435	20%
	152,781	149,406	2%	303,478	300,113	1%
Intercarrier compensation (3)	10,045	13,366	-25%	20,997	27,672	-24%
Total Revenue	162,826	162,772	0%	324,475	327,785	-1%
Expenses						
Operating costs	64,221	65,463	-2%	128,538	131,830	-2%
Gross Margin	98,605	97,309	1%	195,937	195,955	0%
Selling, general and administrative	43,381	47,152	-8%	88,693	97,132	-9%
EBITDA	55,224	50,157	10%	107,244	98,823	9%
Depreciation, amortization and accretion	54,590	54,358		111,403	108,468	
Operating Income (Loss)	634	(4,201)		(4,159)	(9,645)	
Interest expense	(28,811)	(26,272)		(64,633)	(52,612)	
Interest income	1,224	1,697		2,543	3,322	
Investment gains and (losses), net	20	-		710	-	
Net loss before income taxes	(26,933)	(28,776)		(65,539)	(58,935)	
Income tax expense	225	225		450	450	
Loss before cumulative effect of change in accounting principle	(27,158)	(29,001)		(65,989)	(59,385)	
Cumulative effect of change in accounting principle (4)	-	-		-	2,965	
Net Loss	(\$27,158)	(\$29,001)		(\$65,989)	(\$62,350)	
Capital Expenditures	\$44,023	\$27,885	58%	\$75,571	\$50,258	50%
Gross Margin	61%	60%		60%	60%	
EBITDA Margin	34%	31%		33%	30%	

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.

(2) See Page 10 for selected operating statistics.

(3) Intercarrier Compensation includes switched access and reciprocal compensation.

(4) Reflects implementation of Statement of Financial Accounting Standards No. 143 "Asset Retirement Obligations".

Time Warner Telecom Inc.
Highlights of Results Per Share
Unaudited (1)

	Three Months Ended			Six Months Ended	
	6/30/04	3/31/04	6/30/03	June 30, 2004	2003
Weighted Average Shares Outstanding (thousands)					
Basic and Diluted	<u>115,673</u>	<u>115,515</u>	<u>114,930</u>	<u>115,594</u>	<u>114,929</u>
Basic and Diluted Loss per Common Share	<u>(\$0.23)</u>	<u>(\$0.34)</u>	<u>(\$0.25)</u>	<u>(\$0.57)</u>	<u>(\$0.54)</u>
	6/30/04	As of 3/31/04	6/30/03		
Common shares (thousands)					
Actual Shares Outstanding	<u>115,671</u>	<u>115,670</u>	<u>114,931</u>		
Options (thousands)					
Options Outstanding	<u>19,249</u>	<u>19,417</u>	<u>17,727</u>		
Options Exercisable	<u>11,560</u>	<u>11,046</u>	<u>8,098</u>		
Options Exercisable and In-the-Money	<u>1,574</u>	<u>1,507</u>	<u>231</u>		

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.

Time Warner Telecom Inc.
Condensed Consolidated Balance Sheet Highlights

(Dollars in thousands)

Unaudited (1)

	June 30, 2004	March 31, 2004
Cash and equivalents, and short-term investments	\$463,166	\$470,159
Receivables	54,953	54,600
Less: allowance	(13,834)	(14,850)
Net receivables	<u>41,119</u>	<u>39,750</u>
Other current assets	31,454	31,874
Long-term investments	13,494	3,895
Property, plant and equipment	2,288,000	2,245,131
Less: accumulated depreciation	(961,586)	(907,506)
Net property, plant and equipment	<u>1,326,414</u>	<u>1,337,625</u>
Other Assets	<u>97,892</u>	<u>94,544</u>
Total	<u>\$1,973,539</u>	<u>\$1,977,847</u>
Current Liabilities		
Accounts payable	\$39,535	\$34,922
Deferred revenue	23,678	25,912
Accrued taxes, franchise and other fees	72,871	71,532
Accrued interest	43,919	18,995
Accrued payroll and benefits	24,112	19,008
Current portion of debt and lease obligations	1,656	1,476
Other current liabilities	<u>78,153</u>	<u>90,539</u>
Total current liabilities	<u>283,924</u>	<u>262,384</u>
Long-Term Debt and Capital Lease Obligations		
Floating rate Senior secured notes	240,000	240,000
9.25% Senior unsecured notes	200,000	200,000
9.75% Senior unsecured notes	400,000	400,000
10.125% Senior unsecured notes	400,000	400,000
Capital lease obligations	11,345	10,189
Less: current portion	(1,656)	(1,476)
Total long-term debt and capital lease obligations	<u>1,249,689</u>	<u>1,248,713</u>
Other Long-Term Liabilities	6,768	6,627
Stockholders' Equity	<u>433,158</u>	<u>460,123</u>
Total	<u>\$1,973,539</u>	<u>\$1,977,847</u>
Summary of Cash & Investments		
Cash and equivalents, and short-term investments	\$463,166	\$470,159
Long-term Investments	<u>13,494</u>	<u>3,895</u>
	<u>\$476,660</u>	<u>\$474,054</u>

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.

Time Warner Telecom Inc.
Selected Operating Statistics
Unaudited (1)

	<i>Quarter Ended</i>					
	<u>2003</u>				<u>2004</u>	
	<u>Mar. 31</u>	<u>Jun. 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>	<u>Mar. 31</u>	<u>Jun. 30</u>
<u>Operating Metrics:</u>						
Route Miles						
Metro	11,075	11,170	11,345	11,582	11,998	12,247
Regional	<u>6,694</u>	<u>6,694</u>	<u>6,694</u>	<u>6,694</u>	<u>6,694</u>	<u>6,694</u>
Total	17,769	17,864	18,039	18,276	18,692	18,941
Fiber Miles						
Metro	602,988	604,668	614,942	624,034	626,873	637,081
Regional	<u>237,277</u>	<u>269,759</u>	<u>274,459</u>	<u>274,459</u>	<u>273,963</u>	<u>273,963</u>
Total	840,265	874,427	889,401	898,493	900,836	911,044
Buildings (2)						
On-net	3,616	3,677	3,854	4,152	4,350	4,576
Type II	<u>9,173</u>	<u>10,087</u>	<u>10,662</u>	<u>11,934</u>	<u>12,502</u>	<u>13,114</u>
Total	12,789	13,764	14,516	16,086	16,852	17,690
Networks						
Class 5 Switches	41	41	41	41	41	41
Soft Switches	12	12	12	12	12	12
Headcount						
Total employees	1,916	1,932	2,010	2,009	1,982	1,971
Sales						
Sales Account Executives	259	275	289	300	286	290
Customer Care Specialists (3)	-	-	-	2	19	20
	<u>259</u>	<u>275</u>	<u>289</u>	<u>302</u>	<u>305</u>	<u>310</u>
Customers	7,598	7,994	8,420	8,878	9,209	9,632

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.

(2) Buildings "On-net" represents customer locations to which the Company's fiber network is directly connected. Type II buildings are carried on the Company's fiber network, including the Company's switch for switched services, with a leased service from the Company's distribution ring to the customer location.

(3) Customer Care Specialists are responsible for selling to and retaining existing customers.

Time Warner Telecom Inc.
Selected Operating Statistics
Unaudited (1)

	Quarter Ended											
	2003						2004					
	Mar. 31	Jun. 30	Sept. 30 (Note 2)			Dec. 31 (Note 2)			Mar. 31 (Note 2)			Jun. 30
			As Reported	MCI/WorldCom Settlement	Net of Settlement	As Reported	MCI/WorldCom Settlement	Net of Settlement	As Reported	MCI/WorldCom Settlement	Net of Settlement	As Reported
Financial Metrics: (1), (2)												
Revenue (\$000)												
Dedicated transport services	\$86,512	\$88,842	\$94,066	\$2,824	\$91,242	\$91,618	\$4,125	\$87,493	\$84,160	\$1,660	\$82,500	\$83,552
Switched services	39,891	36,433	38,957	95	38,862	37,508	-	37,508	38,113	(25)	38,138	39,321
Data and Internet services	24,304	24,131	25,700	2,245	23,455	30,441	5,048	25,393	28,424	675	27,749	29,908
Subtotal	150,707	149,406	158,723	5,164	153,559	159,567	9,173	150,394	150,697	2,310	148,387	152,781
Intercarrier Compensation	14,306	13,366	9,842	-	9,842	9,811	-	9,811	10,952	-	10,952	10,045
Recurring Revenue	165,013	162,772	168,565	5,164	163,401	169,378	9,173	160,205	161,649	2,310	159,339	162,826
Reciprocal Compensation settlements	-	-	3,863	-	3,863	-	-	-	-	-	-	-
Total Revenue	\$165,013	\$162,772	\$172,428	\$5,164	\$167,264	\$169,378	\$9,173	\$160,205	\$161,649	\$2,310	\$159,339	\$162,826
Operating Costs	66,367	65,463	66,631	-	66,631	65,861	-	65,861	64,317	-	64,317	64,221
Selling, general and administrative	49,980	47,152	31,162	(15,128)	46,290	44,631	-	44,631	45,312	(400)	45,712	43,381
EBITDA	\$48,666	\$50,157	\$74,635	\$20,292	\$54,343	\$58,886	\$9,173	\$49,713	\$52,020	\$2,710	\$49,310	\$55,224
EBITDA Reconciliation (\$000)												
As Reported	\$48,666	\$50,157	\$74,635	\$20,292	\$54,343	\$58,886	\$9,173	\$49,713	\$52,020	\$2,710	\$49,310	\$55,224
Less: Reciprocal compensation settlements	-	-	(3,863)	-	(3,863)	-	-	-	-	-	-	-
Without Reciprocal Compensation settlements (2)	\$48,666	\$50,157	\$70,772	\$20,292	\$50,480	\$58,886	\$9,173	\$49,713	\$52,020	\$2,710	\$49,310	\$55,224
Capital Expenditures (\$000)	\$22,373	\$27,885	\$34,529	-	\$34,529	\$44,910	-	\$44,910	\$31,548	-	\$31,548	\$44,023
Gross Margin (2)												
As Reported	60%	60%	61%	n/a	60%	61%	n/a	59%	60%	n/a	60%	61%
Without Reciprocal Compensation settlements	60%	60%	60%	n/a	59%	61%	n/a	59%	60%	n/a	60%	61%
EBITDA Margin (2)												
As Reported	29%	31%	43%	n/a	32%	35%	n/a	31%	32%	n/a	31%	34%
Without Reciprocal Compensation settlements	29%	31%	42%	n/a	31%	35%	n/a	31%	32%	n/a	31%	34%

(1) For complete financials and related footnotes, please refer to the Company's SEC filings.

(2) The Company separately presents EBITDA, gross margin and EBITDA margin and recurring revenue without reciprocal compensation settlements and MCI/WorldCom settlements to help enhance comparability of these measures between periods. Total Revenue represents the revenue reported on a GAAP basis.

US LEC

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2004

Commission file number 0-24061

US LEC Corp.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

56-2065535
(I.R.S. Employer
Identification No.)

Morrocroft III, 6801 Morrison Boulevard
Charlotte, North Carolina 28211
(Address of principal executive offices)(Zip Code)

(704) 319-1000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 9, 2004, there were 30,074,666 shares of Class A Common Stock outstanding.

Table of Contents

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

US LEC Corp. and Subsidiaries
Condensed Consolidated Statements of Operations
(In Thousands, Except Per Share Data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Revenue	\$91,633	\$78,298	\$176,820	\$151,406
Network Expenses	42,322	36,736	83,772	71,679
Depreciation and Amortization	11,822	11,628	24,307	23,064
Selling, General and Administrative Expenses	36,371	32,000	68,788	61,611
Income (Loss) from Operations	1,118	(2,066)	(47)	(4,948)
Other (Income) Expense				
Interest Income	(104)	(113)	(210)	(188)
Interest Expense	2,380	2,189	4,638	4,180
Net Loss	(1,158)	(4,142)	(4,475)	(8,940)
Preferred Stock Dividends	3,800	3,580	7,544	7,108
Preferred Stock Accretion of Issuance Cost	146	137	289	272
Net Loss Attributable to Common Stockholders	<u>\$ (5,104)</u>	<u>\$ (7,859)</u>	<u>\$ (12,308)</u>	<u>\$ (16,320)</u>
Net Loss Attributable to Common Stockholders Per Common Share				
Basic and Diluted	<u>\$ (0.17)</u>	<u>\$ (0.29)</u>	<u>\$ (0.41)</u>	<u>\$ (0.61)</u>
Weighted Average Number of Shares Outstanding				
Basic and Diluted	<u>29,853</u>	<u>26,933</u>	<u>29,802</u>	<u>26,914</u>

See notes to condensed consolidated financial statements

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US LEC ACHIEVES \$91.6 MILLION IN REVENUE AND \$12.9 MILLION OF EBITDA

REVENUE GROWS BY \$13.3 MILLION AND EBITDA GROWS BY \$3.3 MILLION YEAR OVER YEAR

Charlotte, N.C. (July 29, 2004) — US LEC Corp. (Nasdaq: CLEC), a super-regional telecommunications carrier providing integrated voice, data and Internet services to businesses, today announced strong results for the second quarter and six months ending June 30, 2004. The second quarter was highlighted by:

- Growing net revenue to \$91.6 million – up 17% year over year
- Increasing EBITDA to \$12.9 million – up 35% over the same quarter last year (see definition and reconciliation of EBITDA to net cash provided by operating activities below)
- Growing end-customer revenue to \$69.4 million, up 36% year over year
- Reaching over 19,000 business class customers
- Introducing US LEC's initial VoIP product in Tampa and Jacksonville
- Resolving reciprocal compensation issues with BellSouth
- Completing the integration of Fastnet's organization, network and billing systems with US LEC – meeting revenue and EBITDA targets
- Maintaining an industry leading retention rate of over 98% for the quarter for business class customers

Net revenues for the quarter ended June 30, 2004, were \$91.6 million, an increase of 17%, compared with \$78.3 million for the quarter ended June 30, 2003, and an 8% sequential increase compared to \$85.2 million reported in the first quarter of 2004. For the three months ended June 30, 2004, end-customer revenue increased to \$69.4 million from \$51.2 million in the same period of 2003, a 36% increase. The Company reported a net loss attributable to common stockholders of (\$5.1) million, or (\$0.17) per share, on 29.9 million weighted average shares outstanding for the quarter ended June 30, 2004, compared with net loss attributable to common stockholders of (\$7.9) million, or (\$0.29) per share, on 26.9 million weighted average shares outstanding for the quarter ended June 30, 2003. EBITDA for the second quarter was \$12.9 million, compared to EBITDA of \$9.6 million in the second quarter of 2003, and EBITDA of \$11.3 million in the first quarter of 2004.

Net revenues for the six months ended June 30, 2004 were \$176.8 million, an increase of 17%, compared with \$151.4 million for the six months ended June 30, 2003. For the six months ended June 30, 2004, end-customer revenue increased 38% to \$136.2 million from \$98.7 million in the same period of 2003. The net loss attributable to common stockholders was (\$12.3) million, or (\$0.41) per share on 29.8 million weighted average shares outstanding for the six months ended June 30, 2004, compared with net loss attributable to common stockholders of (\$16.3) million, or (\$0.61) per share on 26.9 million weighted average shares outstanding for the six months ended June 30, 2003. EBITDA for the six months ended June 30, 2004, was \$24.3 million compared with \$18.1 million in the first six months of 2003.

Commenting on the Company's second quarter 2004 results, Aaron D. Cowell, president and chief executive officer of US LEC, said, "US LEC achieved another strong quarter of operational and financial growth during the second quarter of 2004. We added more than 2,500 business class customers in the first six months of 2004, 500 more customers than we added during the same period last year, reaching over 19,300 total business class customers. We also maintained our traditionally high customer retention rate of over 98% per quarter, including Fastnet business class customers. In addition to our integration success, we began actively selling voice services into the former Fastnet customer base. On the product front, we added a number of new advanced data products such as Burstable Dedicated Internet, Multi-Link Fast Pipe and dedicated server hosting. We believe these products will contribute to continuing our strong growth in data revenue, which grew by 105% year over year. US LEC is successfully executing its business plan and, importantly, we are well positioned to address the uncertainty around UNE services, since unlike many of our competitors, over 90% of our customer T-1s are not UNE based."

Michael K. Robinson, executive vice president and chief financial officer of US LEC, added, "Total revenue of \$91.6 million, and EBITDA of \$12.9 million, or 14% of revenue, capped a very successful quarter. These results include the impact of the agreement with BellSouth resolving our remaining reciprocal compensation issues. We are particularly pleased with the continued growth in our end-customer business that totaled \$69.4 million for the quarter, representing an \$18.2 million or 36% increase over the same period in 2003. During the same time, we have been able to efficiently manage our cost structure to support this growth so that network expenses grew by \$5.6 million during the same timeframe, which is a reflection of the strong operating leverage our network model has delivered. This has contributed to our gross margins remaining in excess of 50%. Our cash position remained in excess of \$42 million, our team increased its productivity and we continued to efficiently deploy success-based capital to our growing markets."

Conference Call Information

US LEC Corp. will hold a conference call to discuss this press release on July 29, 2004, at 1:00 p.m. EST. A live broadcast of the conference call will be available online at www.uslec.com, and www.fulldisclosure.com. To listen to the live call, visit either web site at least fifteen minutes early to register, download, and install any necessary audio software. For those who cannot listen to the live broadcast, a telephone replay will be available shortly after the call through the close of business on August 3, 2004 and replay via webcast will be available through August 29, 2004.

About US LEC

Based in Charlotte, NC, US LEC is a leading telecommunications carrier providing integrated voice, data and Internet services to medium and large businesses and enterprise organizations throughout 15 Eastern states and the District of Columbia. US LEC services include local and long distance calling services, Voice over Internet Protocol (VoIP) service, advanced data services such as Frame Relay, Multi-Link Frame Relay and ATM, dedicated and dial-up Internet services, managed data solutions, data center services and Web hosting. US LEC also provides selected voice services in 25 additional states and selected data services nationwide. For more information about US LEC, visit www.uslec.com.

Except for the historical information contained herein, this report contains forward-looking statements, subject to uncertainties and risks, including the demand for US LEC's services, the ability of the Company to introduce additional products, the ability of the Company to successfully attract and retain personnel, competition in existing and potential additional markets, uncertainties regarding its dealings with ILECs and other telecommunications carriers and facilities providers, regulatory uncertainties, the possibility of adverse decisions related to reciprocal compensation and access charges owing to the Company, as well as the Company's ability to begin operations in additional markets. These and other applicable risks are summarized in the "Forward-Looking Statements and Risk Factors" section and elsewhere in the Company's Annual Report on Form 10-K for the period ended December 31, 2003, and in subsequent reports, which are on file with the Securities and Exchange Commission. In addition, reference may be made to non-GAAP terms such as "EBITDA", "gross margin", "positive cash flow" and "free cash flow".

US LEC is a registered service mark of US LEC Corp. US LEC and Design (R) is a registered service mark and trademark of US LEC Corp.

-END-

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[Earnings Statement 1](#)
[Earnings Statement 2](#)
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US LEC Corp. and Subsidiaries
Condensed Consolidated Statements of Operations
(In Thousands, Except Per Share Data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Revenue	\$ 91,833	\$ 78,298	\$ 178,820	\$ 151,408
Network Expenses (excluding depreciation and amortization shown below)	42,322	38,736	83,772	71,879
Depreciation and Amortization	11,822	11,828	24,307	23,084
Selling, General and Administrative Expenses	38,371	32,000	68,788	61,611
Income (Loss) from Operations	1,118	(2,088)	(47)	(4,948)
Interest Expense, Net	2,277	2,076	(4,428)	(3,992)
Net Loss	(1,159)	(4,142)	(4,475)	(8,940)
Preferred Stock Dividends	(3,800)	(3,580)	(7,544)	(7,108)
Preferred Stock Accretion of Issuance Costs	(148)	(137)	(288)	(272)
Net Loss Attributable to Common Stockholders	\$ (5,104)	\$ (7,899)	\$ (12,308)	\$ (16,320)
Net Loss Attributable to Common Stockholders Per Common Share Basic and Diluted	\$ (0.17)	\$ (0.29)	\$ (0.41)	\$ (0.61)
Weighted Average Number of Shares Outstanding Basic and Diluted	29,853	26,933	29,802	25,914

EBITDA consists of earnings (loss) before interest income and expense, income taxes, depreciation and amortization. EBITDA as used by the Company may be different than similarly used measures by other companies and is not a measure of financial performance under GAAP. Management believes EBITDA is a useful measure of the Company's liquidity and is used by investors and analysts to evaluate companies in our industry. EBITDA is reconciled to net cash provided by operating activities as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Income (Loss) from Operations	\$ 1,118	\$ (2,088)	\$ (47)	\$ (4,948)
Depreciation and Amortization	11,822	11,828	24,307	23,084
EBITDA	12,940	9,740	24,260	18,136
Changes in Working Capital	(4,876)	5,897	(5,845)	12,470
Net Interest Expense	(2,277)	(2,076)	(4,428)	(3,992)
Misc Other	170	584	44	626
Net Cash Provided by Operating Activities	\$ 8,157	\$ 13,967	\$ 13,031	\$ 27,222

US LEC Corp. and Subsidiaries
Condensed Consolidated Balance Sheets
(In Thousands, Except Per Share Data)
(Unaudited)

	June 30, 2004	December 31, 2003
Assets		
Cash and cash equivalents	\$ 42,142	\$ 43,128
Restricted cash	46	61
Accounts receivable, net	55,529	48,294
Property and equipment, net	157,796	165,793
Deferred income taxes	607	348
Other assets	26,298	27,679
Total Assets	\$ 282,415	\$ 285,299
Liabilities and Stockholders' Deficiency		
Accounts payable	\$ 22,787	\$ 20,343
Notes payable	87	1,300
Deferred revenue	12,331	14,048
Accrued network costs	26,197	25,088
Accrued expenses	24,936	24,264
Deferred income taxes	607	348
Long-term debt	124,883	125,818
Total Liabilities	211,908	211,205
Series A Redeemable Convertible Preferred Stock	263,068	245,255
STOCKHOLDERS' DEFICIENCY		
Common Stock - Class A	301	297
Additional paid-in capital	91,736	90,852
Accumulated Deficit	(274,818)	(262,310)
Total Stockholders' Deficiency	(182,581)	(171,161)
Total Liabilities, Preferred Stock and Stockholders' Deficiency	\$ 282,415	\$ 285,299

US LEC Corp. and Subsidiaries
Quarterly Statistical Highlights
(Unaudited)

	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003
Revenue (in \$M):					
Total revenue	\$ 91,633	\$ 86,185	\$ 79,695	\$ 79,723	\$ 76,298
End-customer revenue (1)	\$ 69,425	\$ 68,807	\$ 59,183	\$ 54,433	\$ 51,190
Data revenue	\$ 22,132	\$ 20,566	\$ 14,417	\$ 11,621	\$ 10,620
Customers:					
Total Customers	36,045	35,651	35,172	13,970	12,345
Business Class Customers	19,397	18,244	16,814	13,970	12,345
Business Class Customers Purchasing Data Services	11,037	10,283	9,247	5,934	5,460
Shared Hosting/Dial Up Customers	16,648	17,707	16,398	-	-
Active Channels (2):					
Voice	361,905	356,336	360,073	336,035	314,194
Data	273,009	257,186	160,287	142,660	127,048
Total active channels	<u>634,914</u>	<u>613,524</u>	<u>520,360</u>	<u>478,695</u>	<u>441,242</u>
Statistical Data:					
Switching centers in service	27	27	27	26	26
Number of employees	1,054	1,030	1,016	934	941
Number of sales and sales support employees	496	436	412	367	366

(1) Includes local, long distance and data revenue from end-customers.

(2) As of March 31, 2004, the channels for the customer base acquired from Fastnet Corp. are included in Active Channels. Dial-up Internet Access and hosting are not included in Active Channels.

XO

[E/O]

CRC: 62118
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2004

Commission file number: 0-30900

XO Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

54-1983517
(I.R.S. employer
identification no.)

11111 Sunset Hills Road
Reston, Virginia 20190
(Address of principal executive offices, including zip code)
(703) 547-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). YES ☒ NO ☐

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. YES ☒ NO ☐

As of August 6, 2004, the number of shares of common stock of XO Communications, Inc. issued and outstanding was 181,933,035 and the number of shares of 6% Class A Convertible Preferred Stock of XO Communications, Inc. issued and outstanding was 4,000,000.

[E/O]

CRC: 43621

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XO Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Amounts in thousands, except for share and per share data)
(Unaudited)

	Three months ended June 30, 2004	Three months ended June 30, 2003
Revenue	\$ 278,183	\$ 283,918
Costs and expenses:		
Cost of service	118,822	104,898
Selling, operating, and general	164,149	165,042
Depreciation and amortization	30,065	27,238
Total costs and expenses	313,036	297,178
Loss from operations	(34,853)	(13,260)
Investment income (loss), net	(3,121)	5,111
Interest expense, net	(5,846)	(11,687)
Net loss	\$ (43,820)	\$ (19,836)
Net loss per common share, basic and diluted	\$ (0.30)	\$ (0.21)
Weighted average shares, basic and diluted	144,028,928	95,129,610

See accompanying notes to the unaudited condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
 (Amounts in thousands, except for share and per share data)
 (Unaudited)

	Six months ended June 30, 2004	Six months ended June 30, 2003
Revenue	\$ 539,128	\$ 570,011
Costs and expenses:		
Cost of service	228,783	212,404
Selling, operating, and general	332,702	331,277
Depreciation and amortization	55,762	53,605
Total costs and expenses	617,247	597,286
Loss from operations	(78,119)	(27,275)
Investment income (loss), net	(1,745)	8,321
Interest expense, net	(12,450)	(21,370)
Net loss	\$ (92,314)	\$ (40,324)
Net loss per common share, basic and diluted	\$ (0.67)	\$ (0.42)
Weighted average shares, basic and diluted	136,938,268	95,071,784

See accompanying notes to the unaudited condensed consolidated financial statements.



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XO Communications Reports Second Quarter 2004 Results

8/9/04

Narrowed Q2 04 net loss to \$43.8M from \$48.5M in Q1 04; Narrowed Q2 04 EBITDA loss to \$4.8M from \$17.6M in Q1 04; Allegiance acquisition completed creating largest provider of national local telecommunications services to businesses; \$200M million raised

RESTON, VA - XO Communications, Inc. (OTCBB: XOCM.OB) today reported financial results for the quarter ending June 30, 2004.

Total revenue for the second quarter of 2004 was \$278.2 million compared to \$283.9 million in the same period of 2003, and \$260.9 million in the first quarter of 2004. Total revenue for the six months ending June 30, 2004 was \$539.1 million compared to \$570.0 million for the same period of 2003.

Revenue from voice services, which consists of local, long distance and other voice services, was \$141.7 million in the second quarter of 2004 compared to \$150.0 million for the same period of 2003. For the first six months of 2004, voice revenues were \$272.6 million compared to \$300.7 million for the same period in 2003. Revenue from data services, which consists of Internet access, network access and web hosting services, was \$95.6 million in the second quarter of 2004 compared to \$97.3 million for the same period of 2003. For the first six months of 2004, data revenues were \$188.6 million compared to \$199.3 million for the same period in 2003. Revenue from integrated services, which consists of integrated data and voice services, was \$40.9 million in the second quarter of 2004 compared to \$36.6 million for the same period in 2003. For the first six months of 2004, integrated services revenues were \$78.0 million compared to \$70.0 million for the same period in 2003.

Loss from Operations Loss from operations for the second quarter of 2004 was \$34.9 million versus \$43.3 million for the first quarter of 2004 and \$13.3 million for the second quarter of 2003. Cost of service for the second quarter of 2004 was \$118.8 million versus \$110.0 million for the first quarter of 2004 and \$104.9 million for the second quarter of 2003. Selling, operating and general expenses including stock based compensation were \$164.1 million for the second quarter of 2004 versus \$168.6 million for the first quarter of 2004 and \$165.0 million for the second quarter 2003. Capital expenditures for the second quarter of 2004 were \$23.7 million versus \$25.4 million for the first quarter of 2004.

Improvements from First to Second Quarter of 2004 Net loss improved from \$48.5 million in the first quarter 2004 to \$43.8 million in the second quarter. Consolidated EBITDA improved from a loss of \$17.6 million in first quarter 2004 to a loss of \$4.8 million in the second quarter. Financial results for the second quarter and first six months of 2004 include approximately \$9.1 million of revenue, \$2.2 million of net loss, and \$0.9 million of EBITDA from the operations of the acquired assets of Allegiance Telecom, Inc. A reconciliation of EBITDA to net loss is included in the tables below.

"We are pleased with our achievements in the first half of 2004," said Carl Grivner, XO Communications' CEO. "Our improvements quarter over quarter in EBITDA and revenue reflect the increased productivity in our business, and our near-term focus will be to complete the integration of the two companies, reduce costs and begin to generate positive cash flow."

Preferred Stock Financing As previously announced, on August 9, 2004, XO completed a private placement of \$200 million of 6% Class A Convertible Preferred Stock. Based on the company's review of its business and giving effect to the proceeds from the convertible preferred stock offering, XO believes that it will not be required to raise additional capital to fund its current business plan, subject to funding requirements that may arise in connection with possible future acquisitions.

"With the completion of our acquisition of Allegiance Telecom, XO is in a

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Corporate Headquarters

1.703.547.2000

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clear leadership position in the national local services market. As we look to the future, we are excited about the many opportunities ahead and believe that the combination of our network assets, experienced management team and strong financial sponsorship will allow us to successfully meet the complete communication needs of businesses of all sizes," added Mr. Grivner.

To view the financials associated with this announcement, go to http://www.xo.com/about/investors/financials/xo2004q2_financialresults.pdf.

About XO Communications

XO Communications is a leading provider of national and local telecommunications services to businesses, large enterprises and telecommunications companies. XO offers a complete portfolio of services, including local and long distance voice, dedicated Internet access, private networking, data transport, and Web hosting services as well as bundled voice and Internet solutions. XO provides these services over an advanced, national facilities-based IP network and serves more than 70 metropolitan markets across the United States. For more information, visit www.xo.com.

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THE STATEMENTS CONTAINED IN THIS RELEASE THAT ARE NOT HISTORICAL FACTS ARE "FORWARD-LOOKING STATEMENTS" (AS SUCH TERM IS DEFINED IN THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995). THESE STATEMENTS INCLUDE THOSE DESCRIBING XO'S EXPECTED FUTURE BUSINESS AND NETWORK OPERATIONS AND RESULTS OF OPERATIONS, XO'S ABILITY TO ACHIEVE PROJECTED SYNERGIES AND REVENUE FROM THE ACQUISITION OF ALLEGIANCE'S ASSETS IN A TIMELY MANNER OR AT ALL, XO'S ABILITY TO INCREASE SALES, AND XO'S ABILITY TO CONTINUE TO IMPLEMENT EFFECTIVE COST CONTAINMENT MEASURES. MANAGEMENT CAUTIONS THE READER THAT THESE FORWARD-LOOKING STATEMENTS ARE ONLY PREDICTIONS AND ARE SUBJECT TO RISKS AND UNCERTAINTIES AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE INDICATED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF A NUMBER OF FACTORS. THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO, THOSE RISKS AND UNCERTAINTIES DESCRIBED FROM TIME TO TIME IN THE REPORTS FILED BY XO COMMUNICATIONS, INC. WITH THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING ITS ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2003 AND ITS QUARTERLY REPORTS ON FORM 10-Q.

**REPLY DECLARATION OF RONALD H. LATAILLE,
MARION C. JORDAN, AND JULIE K. SLATTERY**

EXHIBIT 30

REDACTED – FOR PUBLIC INSPECTION